

# **FACT SHEET**

## **AB 347 (Assembly Member Block): 25% Penalty on Late Audit Filings**

**Summary:** Assembly Bill 347 will allow the CA Board of Equalization (Board) to impose a 25% penalty when a taxpayer fails or refuses to timely or adequately furnish any information requested by the Board during an examination or audit engagement, unless the failure is due to reasonable cause and is not due to willful neglect.

**Problem:** In recent years, the Board has noticed a trend by taxpayers to resort to delaying tactics and other strategies in providing requested information, documentation and books and records requested for an examination or audit. This strategy not only delays the entire audit process, it reduces revenue in any given year to the State's General Fund.

According to the Board, the trend or practice of not providing books and records is prevalent statewide. The books and records requested by the Board are the normal books of account maintained by an established business entity's normal day-to-day operations and are generally necessary to prepare their financial statements, as well as file their various income and business tax returns.

The Board's Sales and Use Tax Department tracks aged audit assignments on a quarterly basis and has numerous examples each quarter of taxpayers who have continually refused to provide the books and records necessary to conduct an examination or audit in a timely manner. Some of these audits have been known to go unresolved for up to seven years; some with hundreds of unnecessary hours spent in attempting to secure the requested books and records.

**Solution:** AB 347 would create a monetary disincentive for taxpayers to stall or delay during the audit process. This would accelerate the audit revenue stream and reduce the time the Board spends on each audit. By reducing the time spent on any given audit, the Board will be better able to allocate its resources to generate additional revenue and reduce expenses.

**Background:** Under existing law, Revenue and Taxation Code Section 7054 authorizes the Board to examine the books, papers, records, and equipment of any person selling tangible personal property and any person liable for the use tax. However, existing law does not provide for a penalty or other monetary disincentive that would apply to taxpayers who fail or refuse to provide the books and records necessary to conduct an examination or an audit engagement. This bill would bring the Board's powers in line with those of the Franchise Tax Board, which is authorized to impose a 25% penalty on those who do not comply with its requests for information.

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